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THE  
FINANCES OF GREAT BRITAIN  
AND GERMANY.

BY

E. F. DAVIES.

Feb. 1916.

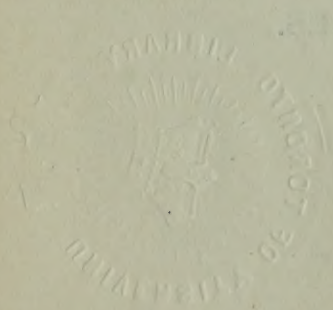
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THE  
HISTORY OF GREAT BRITAIN  
AND GERMANY





# THE FINANCES OF GREAT BRITAIN AND GERMANY.

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## A COMPARISON.

In March, 1915, we published a pamphlet entitled "British and German Finance," dealing with the finances of the two countries. We showed the dire straits to which the German Government was reduced in order to finance the war which it had forced on Europe, and for which it had been preparing so long. The fact that even the Finance Minister, Dr. Helfferich, an eminent and talented financier, in his speeches in the Reichstag and to neutral journalists, is obliged not only to suppress the actual facts, but to make gross misstatements when comparing the financial situation of Germany with that of Great Britain, is a sure indication of the terrible plight into which Germany's ambitions have plunged her. The above-mentioned pamphlet was written with the object of putting the exact financial position of the two countries clearly before the world, and of counteracting the numerous attacks, made by

Germany through the Press and by means of innumerable pamphlets and circulars, on the finances of Great Britain. The Germans professed to offer striking proof of the soundness of Germany's financial and economic position; glowing accounts were given of the great success of the German loans. But the methods that the German Government was forced to employ in order to finance the war have been made public only partially; when the war is over the true value of the German loans will be disclosed. In our pamphlet of last March we stated :

“ Neutral countries will not, however, invest their money in Germany, because they themselves are able to judge of the true situation, and although the depreciation of the German mark by some 14 per cent. (in itself a grave warning) may point to an apparent speculative profit to be gained at a later day by the purchase of German currency now, and therefore encourages subscriptions to German loans, yet everyone knows that the mark can and may depreciate in a manner which at present may seem incredible.”

At that time the value of the German mark in neutral countries showed a depreciation of some 14 per cent., and we pointed out that neutral investors, participating in German war loans, would have to reckon with a big loss in

realising their coupons, quite irrespective of the depreciation in capital. We ended with the words: "Who knows what it will be?—A loss of 14 or 40 per cent?"

## GERMANY'S POSITION TO-DAY.

What is the position of Germany to-day? Instead of a 14 per cent. depreciation of the exchange on Germany, it is more than 30 per cent., so that a neutral investor who thought it good business to invest in the German loan when the German exchange showed a 14 per cent. depreciation, finds that his coupons can only be collected to-day with a loss of over 30 per cent., not taking into account the cost of insurance, &c.; moreover, when making up his balance sheet at the end of December, 1915, he is obliged, in order to arrive at his cash position, to write off 16 per cent. depreciation of his capital invested in German loans, due to the continued fall of the German exchange. This grave exchange danger was pointed out in our pamphlet, and we trust that neutrals have followed the advice contained therein and saved themselves from this great loss.



Let us take the case of a Dutchman who subscribed to the German War Loan issued at  $98\frac{1}{2}$  per cent., yielding 5 per cent. interest. If we take the approximate par of exchange, viz.:— 59 *florins* 26 *cents* per 100 marks, he would have paid 59,260 florins for 100,000 marks on Berlin, which would have been invested in the German War Loan at  $98\frac{1}{2}$ . To-day (6th January, 1916) the exchange on Berlin in Amsterdam is quoted 39 florins 75 cents per 100 marks, so that, even provided he were able to sell his stock in Berlin at the price he paid for it, he would lose very considerably, because he would be able to sell his 100,000 marks on Berlin only at the exchange of 39·75, which would produce 39,750 florins, and as he would have paid 59,260 florins for the 100,000 marks exchange when investing, the loss to him would be 19,510 florins, say nearly 33 per cent.

## GERMAN LOANS.

All the German loans have been abnormal successes. The word “abnormal” is used because it is impossible, as every financier will agree, to issue millions upon millions of successive loans all charged upon the same original security, without the price going to a discount.



Germany, however, has issued three loans, the first at  $97\frac{1}{2}$ , the second at  $98\frac{1}{2}$ , and the third at 99. Does this feat inspire confidence? It may to the uninitiated, but to any financier it is a grave warning, for it shows that the market has been rigged, and the two latter loans engineered. The price at which such loans have been issued will give much room for reflection at a later date. The organization of which Germany boasts so much is her undoing. Organization conducted in a proper manner is a great factor, but Germany is over-organised; her loans show brilliant organization, and from a company promoter's point of view nothing better could be desired. But what of the investor? He has been badly treated. Germany's loans are over-valued. The subscriber has paid far too much. Possibly neutrals who have subscribed calculated that the Allied Powers would ensure the re-establishment of Germany's credit after the war, in order to pay themselves; but who to-day can cherish that idea in view of the statements of British Cabinet Ministers?

It is freely admitted that the system of financing loans in Germany was a very clever system, provided that the war did not last more

than six months; but to-day it has lasted more than eighteen months, so that the system adopted by Germany, which would have been admirable from her point of view if the war, as apparently she anticipated, had ended with her victory in six months, has become her greatest economical and financial danger. German Ministers know this, but dare not tell the German public the actual position. The system that Germany inaugurated forces her to go on; it is a system that is leading her to bankruptcy and default—no other end is possible unless she emerges fully successful from a military point of view in this war, and who to-day imagines that she can be successful? Her armies have accomplished a great deal,—to be prepared is half the battle—but only one end can now result; the failure of Germany to achieve the success which she anticipated and for which she had worked so assiduously. With the military failure are involved economic disaster and financial ruin. The success of the German loans is the result of skilful pawning and of capable pyramiding, but when the final catastrophe occurs the result will be a financial tragedy. The following article, which appeared in the "Kölnische Zeitung," No. 891, of 2nd September, 1915, will conduce to

an understanding of the way in which German loans are placed :

“ It is not necessary that one should have actual gold or silver, and anyone possessing anything can participate, whether they have ready cash or not. If you have money in the bank, simply withdraw it for the purpose of subscribing; in the case of large amounts, a certain period of notice has to be given to the bank, although when it is not a question of a big sum the banks are generally willing to repay without the requisite notice being given. You should therefore at once enquire at the bank where your money is deposited.

“ If you hold securities you will find it easier still to raise money. It is not necessary to sell them; you simply borrow money against them at any “ Reichsbank-Darlehnskasse ” or at any large bank, and as you will receive almost as much interest on the War Loan stock, or even more interest than you pay to the lending bank, you will be nothing out of pocket. You must, however, hand over to the bank the securities against which the money is advanced to you, and the bank will retain them until the loan is repaid. No loss can ensue from the above-mentioned procedure, or at the most it could only be  $\frac{1}{4}$  per cent. per annum in the interest if, as is the case with the “ Reichsbank-Darlehnskassen,” you pay  $5\frac{1}{4}$  per cent. interest on the borrowed money, whilst you receive 5 per cent. on the War Loan stock; and even this possible loss will subsequently be made good in view of the fact that you pay only 99 marks for each 100 marks of War Loan stock, which 100



marks will be repaid in full. The first War Loan, for which subscribers had to pay only M. 97·50 per cent., was, after a few months from the date of issue, saleable at 100 per cent. and even higher. The second War Loan, which was issued at 98·50 per cent., quickly went above this price, and the same thing will happen with the present issue. The price of 100 per cent. will in all probability be speedily reached, in which case you will realise a profit of one per cent., quite apart from the high rate of interest which you will regularly receive. You can accordingly very well ignore a slight and temporary loss of interest.

“If you have already subscribed to the first or second War Loan and paid in full for the same, you can at once participate in the present issue. All you need do is to take your stock—or, if you have not yet received the stock, the receipt for the amount paid—to a bank, who will advance you 75 per cent. of the nominal value, so that, if you have M. 400 old War Loan you can subscribe M. 300 in the new issue without paying a single pfennig. You can even subscribe four times this amount, i.e., M. 1,200. if you also leave with the bank the stock that you take in the new loan, in which case you will have given the bank as security M. 400 of the old War Loan and M. 1,200 of the new War Loan, together M. 1,600 against a loan of M. 1,200.

“An especial advantage lies in the fact that you can subscribe amounts for inscription in the Imperial Government Debt Book, and if you take advantage of this facility you need only pay M. 98·80 for each 100 marks subscribed, which represents a saving of 20 pfennige on 100 marks

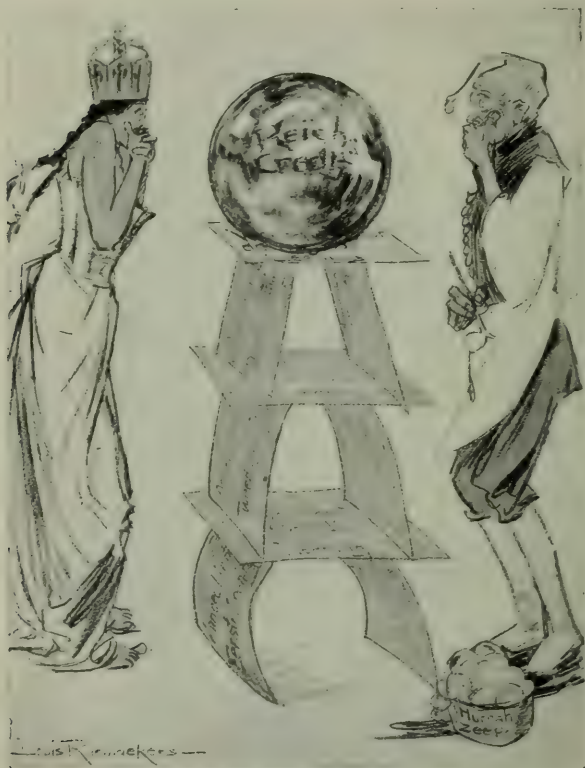
and 2 marks on 1,000 marks, whilst the interest on each successive due date will be sent to you through the post.

“The advantages of subscribing are so great that anyone who has stocks and shares should at once send in his application for a large amount.”



*German Michael*—"I got a receipt for 100 Marks. I gave this for a second 100 Marks and I received a second receipt, for the third loan I gave the second receipt. Have I invested 300 Marks and have the Government got 300 Marks, or have both of us got nothing?"

The cartoon of the famous Dutch Artist, Mr. Louis Raemaekers, aptly describes the state of the subscriber. As the German paper we have



“Don't breathe on the bubble or the whole will collapse.”

quoted states :“ If you have 400 marks old war loan, you can subscribe 300 marks in the new



issue without paying a single pfennig. You can even subscribe four times this amount, *i.e.*, 1,200 marks, if you also leave with the bank the stock you take in the new loan, in which case you will have given the bank as security 400 marks of the old war loan and 1,200 marks of the new war loan, together 1,600 marks against a loan of 1,200 marks."

The Darlehnskassen have facilitated, and no doubt will further facilitate, *inter alia* the use of dead securities, for which there is no quotation, as a means of subscribing to the German loans. They have no doubt obtained very good securities in some quarters, but the great danger lies in the fact that the Darlehnskasse facilitates borrowing on a large scale on securities which after the war may have little value.

Further comment is unnecessary. The reader will be able to form his own clear judgment as to the ultimate result of this so-called finance.

## BRITISH LOANS.

No one will deny that Great Britain is a very rich country. The wealth of Great Britain has accumulated for centuries. Yet such were the clean and straightforward methods of floating loans in this country that the rate of interest had to be raised each time a further issue was made. If the financial authorities of this country had formed powerful syndicates, manipulated the prices, and otherwise employed the same measures as Germany, they could have issued successive loans at higher prices; but Great Britain has too long occupied the position of financial centre of the world to resort to ways and means that would have brought discredit on the British financial community. The markets were free; the quotations were, and are, the result of supply and demand; no fictitious prices and no artificial measures have been utilised in order to maintain prices and send them to a premium with a view to misleading the British or neutral investor. Great Britain, rich as she is, has been obliged to raise the yield on her loans, and if this has had to be done in Great Britain, in order to show the true value of money, what should be the real value of

the last German loan to-day? The world will know THAT when peace has been declared and when the Bourse in Berlin is once again unfettered. German bankers and financiers, clever, intelligent and adaptable as they are, and freely acknowledged to be masters of their craft, must view with mingled feelings the financial precipice over which Germany is throwing herself and her commercial reputation.

#### DR. HELFFERICH'S STATEMENTS.

The Finance Minister of Germany, Dr. Helfferich, a clever banker and eminent financier, should remember that, whilst his words may mislead the German public, they are subject to severe criticism outside of Germany. In his address to the Reichstag on 10th March, 1915, he stated that the credit of Germany was better than that of either Great Britain or France. Did he believe his own words? One can only think how grossly he has been misinformed. In our previous pamphlet it was stated that the depreciation of 14 per cent. in the German mark exchange (March, 1915) showed how Germany stood. To-day the depreciation is over 30 per cent. On January 6th the mark was quoted in



Amsterdam at 39·75 florins for 100 marks, whereas the normal exchange is 59·26 florins per 100 marks (on July 12th, 1914, it was 59·12). In this connection the remarks contained in our last pamphlet, issued in March, 1915, may be of interest:

“ Perhaps we may be permitted to explain why the German 100 mark note has depreciated 14 per cent. abroad. As soon as Germany declared war every country began to sell German securities; bankers in neutral countries requested Germany to close their commitments in stocks and shares and to cover all credit facilities they had given Germany to finance her foreign trade; bankers who had any balances with German banks immediately sold them at the best rates, which showed a steadily increasing depreciation, and lost very considerably in realising such balances. The natural outcome of this was that everyone wished to sell marks, and the exchange on Germany reached a point where it became cheaper to export gold from Germany rather than sell a cheque or a mail or telegraphic transfer. But Germany absolutely refused to allow gold to be exported; she even refused and still refuses to cash her own notes in gold; German notes, therefore, remained paper only and could not be converted into gold; travellers leaving Germany were stopped at the frontiers and their gold taken from them, notes being given in exchange, whereby they sustained considerable loss, as gold always commands its value, while a German note, without

the possibility of conversion into gold, is practically valueless outside Germany. In order to counteract this depreciation in the exchange, large amounts of securities were sold abroad, but this only arrested the depreciation of the German mark for a little while and has had no lasting effect. Outside Germany the German note is valueless; it must be remitted at once to a German banker and the amount realised will be 86 per cent.\* of its nominal value, and even this value is fictitious. German credit better than that of either France or Great Britain! Was there ever a more preposterous statement?"

The following account of an interview between the Right Honourable Walter Runciman, M.P., President of the Board of Trade, and the London correspondent of the "Chicago Daily News," in November last, throws a great deal of light on the respective conditions prevailing in England and Germany:

"Opening an exclusive interview with Mr. Walter Runciman, M.P., I called his attention to the fact that certain critics in American newspapers are saying that England is nearly bankrupt; that she can scarcely pay her way; that German finance is much sounder; that strikes in England have diminished the productive power of the country and brought it to the verge of an industrial revolution; and that Labour is adverse to the national policy.

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\* To-day only 67 per cent.

“What reply have you, Mr. Runciman, to these statements?” I asked.

“This reply, at all events, answered the acute and energetic Cabinet Minister, with great good humour, “that you would be hard put to it to invent statements further from the truth.”

“Then England is not bankrupt?”

“Something about our finance I will tell you in a minute,” said Mr. Runciman; “but first let me, as President of the Board of Trade, one of the departments charged with the duty of dealing with labour disputes, point out how trivial what are called ‘strikes’ have been since the outbreak of the war.

“Never in the last 20 years have there been fewer labour disputes; there never has been such a small percentage leading to stoppage of work. Only two important trades have been affected by strikes—shipbuilding on the Clyde, where a settlement satisfactory to all parties speedily was achieved, and coal-mining in South Wales.

#### EXAGGERATIONS.

“These miners were out only one week in the summer, and on the resumption of work they made every endeavour to overtake the diminution of output caused by the stoppage, and they worked on the August holidays with this object—a step which never had been taken by them in times of peace. Small sectional disputes at individual works and collieries always have happened. No doubt every

trivial incident of this kind is exaggerated by German propagandists, in their accounts of the state of Britain, into something in the nature of a national strike. They cause us no anxiety here, for labour is more fully in harmony with national policy now than ever before in modern times.

“The heads of every one of the hundreds of trade unions are heart and soul with us, and the small handful of Socialists who have not expressed approval of British policy are not leaders of trade unions, and have no authority in the labour world. The men themselves have shown how fully their hearts are in this tremendous business by relaxing trade union rules on restriction of output, and by increasing the yield per man. In particular, in the iron and steel industry, and in coal mining, the returns show an improved ‘get’ per man month after month. They are working longer hours and more regularly than ever before, and it is all done of their own free will—no ‘conscription’ or compulsion. The enthusiasm and adaptability of British labour have been amazing.”

“And how about the financial position?”

“Well,” answered Mr. Runciman, “compare it with Germany’s. In the ‘Kölnische Zeitung’ in September the naïve statement is made that it is easier to raise money on securities than to withdraw large deposits from the savings and other banks. This paper went on to show how 400 marks (a mark, 11 $\frac{3}{4}$ d.) will buy 1,600 marks’ loan, thereby forcing a loan on the subscriber of 1,200 marks. The present German financial plan is ‘borrow, borrow, borrow!’



## GERMANY'S ONLY HOPE.

“What will the ultimate result of this be?” Mr. Runciman continued. “Nothing short of the absorption of the whole German wealth in war loans. The only hope of salvation suggested by Germany’s Finance Minister is that Germany’s vanquished enemies must pay the cost. This solution may be inadequate, even if Germany had a chance of winning; but, if she does not win, what then? Prolongation of the war makes a successful financial issue for her more doubtful, and every month of hostilities means the absorption of more and more of her wealth at an appalling pace.

“At the end persons having borrowed largely from the Darlehnskassen will find themselves with heavy liabilities, and will no doubt endeavour to reduce these by selling German war loans, and if German business men are to re-establish their over-sea trade they will have to provide themselves with working capital by selling their war loan holdings when the war is over, especially as they will be forced to pay more fully in cash for what they buy abroad, and they will have to work with far less credit. Moreover, the price which is artificially maintained by specially constructed syndicates at present must drop to a discount immediately the support is withdrawn.”

“Will you explain the difference between the German and British loan?”

“Germany has to support her loans after issue by artificial means. Britain could have done

exactly the same. When our first loan was floated, if we had established a powerful syndicate and forced the price to a premium, by thus rigging the market we could have floated a second loan on better terms for our Exchequer. We rather chose methods open and straightforward. The loan is issued; it takes care of itself without official assistance, its price is regulated by supply and demand, and everyone, including neutrals, knows exactly the true state of the market, which is disclosed day by day.

#### NO ELEMENTS OF TRICKERY.

“This system has in it no elements of trickery, nor any syndicate Stock Exchange devices, which are the tools of the unscrupulous company promoter. Therein lies the strength of British methods. The British merchant dislikes pawning operations. The British investor pays for his war stock out of his fortune. The Government asks the public to subscribe out of its present or accumulated savings, and the gigantic subscriptions have been made on a sound basis.

“The accumulated wealth of centuries has enabled our war loans to be taken up by our own people without incurring fresh liabilities. Let me also remind you that London is still the free gold market of the world. Any Englishman having a balance at the bank can withdraw the money in notes and convert those notes into gold at the Bank of England. If he wishes to pay a debt in Europe or America he can pay in bullion without let or

hindrance. It never has been necessary for us to prohibit the export of gold. We are prepared to meet our liabilities on a free gold basis. Since August, 1914, Great Britain has exported £13,815,624 gold bullion and coin in the ordinary course of business, in addition to large sums exported by the Bank of England for Government account, and no individual is prevented from meeting his liabilities abroad in this way if he prefers to settle by bullion transaction.

“Moreover, the Bank of England note is covered by gold to the extent of 200 per cent. As far as we can ascertain, the German note is covered by about 43 per cent. Indeed, if Germany had not refused to pay her notes in gold she long since would have come to a financial standstill. That she refuses to pay her notes in gold is a fact that neutral countries might well note for future guidance.”

“How do you account for the depreciation of the pound sterling in New York?” I inquired.

“What is the explanation of the depreciation of the mark?” rejoined Mr. Runciman. “I have before me a chart of the fluctuations of the exchange in New York since the war began. You will see that the mark is at a discount of  $14\frac{1}{4}$  per cent., while the pound sterling is at a discount of 5 per cent. This contrast is the more remarkable when you remember that Germany has made very small and diminishing purchases in America, whereas our purchases in America have been gigantic. France and England are far and away

America's largest customers at the present moment, and it is because we have been America's best customers, and have bought more goods than there is exchange for, that there is even this discount of 5 per cent.

“ If Germany had tried to purchase on the same scale no one can tell where her exchange would have dropped to. If we had shipped gold in payment of the whole of our trade balance we should have created great inflation in America, and this in itself would have been a reciprocal disaster.

“ Germany boasts that she will emerge from the war practically free from foreign obligations. Her partisans might frankly add that this will be a serious matter for German finance, for she is consuming all her present supplies of materials, and that, being unable to replenish during the war, she will be forced to purchase enormous quantities at the end of the war in order to restore and carry on her industries. If her exchange is at 14 per cent. depreciation to-day, what will it be then? ”

“ In what does Britain's financial strength lie? ”

#### AMAZING EXPORT TRADE.

“ It lies in the fact that she is all the time earning income by production for herself and her foreign customers, and by carrying cargoes across the seas for vast numbers of foreign merchants in British vessels, so that by preserving her industrial and commercial activities during the war she



has found two successive increases in her taxation a burden comparatively easy to carry. She is, indeed, paying enormous sums out of her new taxes towards the actual cost of the war. Germany dare not increase her taxation at all.

Great Britain's export trade has shown amazing strength. When the war broke out her exports to Russia naturally were interrupted and her exports to Germany, who formerly had been a great customer of hers, came absolutely to an end. In spite of this, from the first days of September, 1914, her export figures continuously have advanced, from £26,674,101 last September to £32,308,432 in September this year. British credit is built upon the firm rock of profitable production, and her producing power is enabling her to dispense with all dodges and tricks resorted to by her weaker foe for obscuring the true position and postponing the day of reckoning. They not only finance ourselves, but with the co-operation of France support the Russian exchequer in its foreign purchases, and provide the Belgian and Serbian Governments with the funds necessary to enable them to preserve their national existence."

Mr. Edwin Montagu, M.P., Financial Secretary to the Treasury, also granted an interview to the London correspondent of the "New York Tribune," in the course of which Mr. Montagu said :

"When a man with Dr. Helfferich's gifts replaces arguments with violence, and is driven to

talk moonshine when he is supposed to be making a financial statement, it is not unfair to assume that he is hard up for real arguments with which to prop up Germany's shaken finances. A comparison of his latest speech with his earlier efforts is a cheering task for the Allies. He is always ingenious and eloquent, but now for the first time he begins to be hysterical. He searches round feverishly for statistical comparisons favourable to Germany, and has alighted on some which are really amusing.

“The speech affords a striking contrast to M. Ribot's lucid utterances, and though Dr. Helfferich may mock in affected superiority at Mr. Asquith's calm, sober statement in the House of Commons that our financial situation is serious, the inference drawn by discerning critics from the comparison of tone of the two speeches will not be favourable to the German. I think the explanation of the German Minister's tone and style is to be found in this:—

“In the machinery and organisation of war Germany has been living on her accumulated stocks of munitions. We have been building up ours. Our great efforts are only just beginning to bear fruit, and have had as yet but a trifling influence on the military situation. We started, compared with Germany, virtually without an army and without arsenals. Since the war began we have been preparing. Germany has thrown everything into the scale to strike a decisive blow before our preparations bear fruit. She has struck and failed.

“ Let me proceed to examine some of his arguments. Dr. Helfferich is misguided enough to venture upon a comparison between the foreign exchange position of England and Germany. I need not remind Americans how the exchange between London and New York fell for a few days at the end of August to a discount of between 6 and 7 per cent. We freely permitted and even encouraged by Government export the natural corrective of the flow of gold to America, and the recovery was rapid.

#### FOREIGN EXCHANGES.

“ Since then, with the help of the loan which was floated in America by England and France, and by the use of ordinary economic methods, the exchange has been restored and kept steady at a figure which is roughly equivalent to the old export point, allowance being made for the high cost of insurance, freight, &c., at the present time.

“ And remember, this has been effected at a time when we were spending vast sums in America on our own account and on account of our Allies, without seriously trenching upon the accumulated wealth of this country, represented by our holdings of American securities, which we are now beginning to mobilise for Government purposes with a view to the future.

“ What is Germany's position in regard to foreign exchanges? Dr. Helfferich will hardly be

able to remember the day when the German exchange was within measurable distance of being as good as our worst, and the recovery of sterling since August has been in an inverse proportion to the now rapid and steady collapse in the value of the mark. On October 1 depreciation of the mark in the terms of dollars was about 12 per cent.; now it is 19 to 20 per cent. below par, while Germany's exchange in Amsterdam is more than 26 per cent. below par. (To-day over 30 per cent.)

“ We keep a chart in the Treasury showing the statistical position of the various exchanges since the war began, and we have continually to extend the chart in order to prevent the descending line which represents the mark from disappearing below the bottom edge of the chart. And in contrast to our position this depreciation of the mark is occurring in spite of the fact that Germany is cut off by the British Fleet from the outside world, and is unable to spend money in America and elsewhere on purchasing supplies which she would give so much to secure.

“ Germany, with hardly any payments to make outside Europe, has nevertheless to see her exchange falling away to vanishing point. She has realised all her available assets in the shape of negotiable foreign securities, and ever since the outbreak of the war she has suspended specie payments. What is the explanation of this fall in the value of the mark? One only is possible—the manufacture and abuse of paper credit. The mark has lost all relation to the gold standard.



## CREDIT IN AMERICA.

“ If this has happened in the present conditions, what will be the value of the mark when peace comes and the German importer wants to restock his empty larder and his empty storehouse, and tries to exchange his depreciated paper for goods from overseas? Will the mark then be worth ten cents? The criterion of exchanges is not one which Dr. Helfferich should have invoked so lightly.

“ Dr. Helfferich pretends to believe it is a sign of weakness on the part of France and England to have sought credit in America. Does anyone believe Dr. Helfferich would not have borrowed there if he could—that is, if the British Fleet would have allowed Germany to make any effective use of such credits as she might have obtained in America, and if American lenders would have risked their money? I wonder, by the way, how he regards Canada’s internal loan of £20,000,000, of which the Canadian Government has offered to put one-half at our disposal for meeting the purchase of munitions.

“ Is this another sign of the collapse of the tottering British Empire? Germany’s one public attempt to borrow abroad (a £2,000,000 loan in the United States of America in April, 1915) was not a very encouraging performance. But if Dr. Helfferich really objects to borrowing in America, how comes it that all sorts of advertisements have appeared prominently in the American newspapers

offering Germany's internal loans for subscription in the United States of America at yields which become more and more superficially attractive as the mark exchange goes down, yet fail to attract because of the risk that the exchange may never rise again, and of the intelligent doubt of Americans as to where Germany is to find the cash to pay the interest?"

As to Dr. Helfferich's comparison between the course of Government securities in England and Germany, Mr. Montagu said:—"Dr. Helfferich told how the first German war loan was placed at  $97\frac{1}{2}$ , the second at  $98\frac{1}{2}$ , and the third at 99. The stage manager was naturally proud of his stage management. I daresay Dr. Helfferich can arrange, if he likes, that the next German war loan shall be brought out at  $99\frac{1}{2}$ , leaving room for the fifth at par. But it is clearly a little too good to be true. We are asked to believe miracles. Not even in Germany can the raising of ten billion dollars in war loans positively improve public credit, even if you forget conveniently the remarkable fact that not a ghost of provision has been made for meeting future interest charges.

"How can finance be sound or lead to good results if no taxations are imposed when large loans are being raised? The explanation of these loans is partly, of course, that there is no sort of freedom about the market for war loans in Germany. The bourses are entirely under Government control, and in fact, if not in form, there are minimum prices fixed, below which no one is allowed (or, indeed, dare attempt) to sell the war loan, however

much he may want to. The quotations are nominal, and exist for rhetorical purposes only. Besides, if you flood the country with manufactured paper credit it is easy to create a surplus of depreciated marks nominally available for investment.

“The operation of this latter factor is well illustrated in the quotations of Germany’s pre-war debt. Dr. Helfferich boasts that this has fallen only seven points since the war. This may be true in Berlin, but it is a sufficient commentary on this to mention that in New York the price of this German loan has fallen 28 points—a fact which Dr. Helfferich naturally ignored in his eagerness to make debating points and to avoid discussing realities. In these comparisons Dr. Helfferich is on weak ground—driven there by desperation.

“The British money power of which Dr. Helfferich speaks has, like the British naval power, done all, and more than all, that the prophets expected of it. And Dr. Helfferich knows it.

“But there are some other respects in which Dr. Helfferich is on stronger ground, and we should be following his unfortunate example if we were to ignore them. Germany has raised great sums from the small investors (many of whom, by the way, appear to have more war stock and less money to spend on the necessities of life than they care about). Some of our papers have reported Dr. Helfferich as laughing at our great war loan

as having ‘only yielded a few hundred millions.’ But this is due, I think, to an error in reporting the speech as telegraphed. He was speaking of our vouchers and small bonds having brought in only a few hundred million marks.

#### CHEERFUL TAXPAYERS.

“The actual figures are about £40,000,000, and would be more correctly stated at nearly 1,000 million marks, or more still if the depreciated value of the mark is duly allowed for. It must be remembered that we have taxed our people, and taxed heavily, while Germany has not dared to do the same. Our people are paying these taxes cheerfully, but are, in contrast with our enemies, very prosperous, and I agree, therefore, that our machinery for reaching the small investor is capable of improvement, and the committee of which I am chairman is at the present moment busy investigating the possibilities of this still untapped source of wealth.

“The German method of making advances to investors in war loans is full of danger and open to the greatest abuse. Dr. Helfferich states that in Germany it has not been abused. In Austria it has been abused, and on their latest loan it is possible to make 10 per cent. on the amount which it is necessary to pay up in cash. Austria’s financial ruin is already complete. But whatever Dr. Helfferich may be driven to in the course of time, I am willing to accept his statements that hitherto the system has not been abused, and that



only a moderate amount of war loans has been raised by such methods and that he has been highly successful in mobilising Germany's financial resources.

“ But let me add that it is precisely this success in the past which is embarrassing Dr. Helfferich now, and will embarrass him still more in the future. Even before the war began Germany's finances had been strained by her preparation, and since it began all, and more than all, that could safely be done has been done in diverting into Government channels the whole resources, present and prospective, of the country. What is the consequence? Germany has been sucked dry, to borrow one of Dr. Helfferich's phrases. It is precisely because we have been so much slower in getting to work, and because there remain great resources of private wealth within Great Britain and the British Empire still untapped for public purposes, that I look forward to the future with confidence.

“ Germany's long preparation and complete organisation for the business of war gave her a big start. She did her best to take full advantage of it. She has not succeeded, and now that the contest has turned into a long-distance race it will have done no good to have spurred at the beginning.

“ In his glowing peroration Dr. Helfferich recalled the memories of the Thirty Years' War: ‘ We were sucked dry, plundered, beaten, cut up,

but we always worked our way up and grew together again.' He purports to look forward to the possibility of such a conclusion without dismay. So do we. If Germany emerges from this war in the sort of state she was in after the Thirty Years' War we shall be able to hang up our swords again with very little anxiety for the best part of a century."

The neutral and impartial Press of America has also commented on Dr. Helfferich's statements, and the following article from an organ known all over the world, the "Commercial and Financial Chronicle" of New York (No. 2634, Volume 101, dated December 18th, 1915), is well worthy of reproduction :

#### THE FINANCIAL SITUATION.

"The expiration this week of the life of the \$500,000,000 Anglo-French loan syndicate, and the announcement of the results of the undertaking, together with the decline in the price of the bonds, came at an opportune moment for the Secretary of the Imperial German Treasury, Dr. Karl Helfferich, who, in an address before the Reichstag, compared British war financing unfavorably with the war financing of Germany.

"If Dr. Helfferich is correctly reported in the cable dispatches which have come from Berlin via London, he asserted that English attempts to raise

loans in this country had been failures. The exact contrary has been the case. It is true that the entire \$500,000,000 bonds involved in the Anglo-French loan have not yet found permanent lodgment among investors, but no one supposed this could be done in sixty days' time, and the Secretary of the German Treasury should not confuse this incompleteness of the investment operations with the negotiation of the loan itself through the underwriting syndicate which took the bonds in the first instance. This operation was an absolute and unqualified success. The Anglo-French Commissioners placed the bonds with the syndicate and the participations in this syndicate were oversubscribed. Most important of all, the \$480,000,000 cash represented by the sale (the syndicate took the bonds at 96) was placed to the credit of the two governments some time ago, and is now being gradually checked out in payment of goods and supplies purchased here for account of the Allies.

“Thus, there has been no ‘failure of English attempts to raise loans in the United States.’ Great Britain and France came here to obtain \$500,000,000, and got the money without the slightest difficulty. Since then Great Britain has obtained \$50,000,000 more on a bankers’ credit and all through the current year has been obtaining large amounts in the ordinary course on bankers’ credits. Great Britain’s military successes have been nothing to boast of, but her financial prestige remains unimpaired.

“ Very possibly it might have been better if the rate of interest in the first British war loan had been fixed higher. Yet, through all the course of the war Great Britain has furnished a demonstration of financial strength without a parallel in the world’s history. What other country could have gone into a foreign market and raised \$480,000,000 of cash on a straight loan proposition. And—to do a little boasting upon our own account—what other country of the world could have accommodated her with such a huge sum of money, for even in the present war times, with their enormous expenditures, half a billion dollars is no’ beggarly sum, accustomed as we have become to staggering figures.

“ Great Britain has had to finance her allies as well as herself and with it all has proceeded in a calm and deliberate manner that bespeaks entire confidence in the consciousness of her own financial impregnability. The trade balance has been running against her in prodigious amounts; confronted with the huge and difficult task of providing for this balance, the British authorities have gone ahead and dealt with the problem as if it were only an ordinary everyday business affair.

“ Gold has been allowed to pass out in huge sums, the bulk of it going to the United States, but no inconsiderable amounts going also to other countries, and London to-day remains a free gold market, the same as it has always been. Is there any other country among the belligerents of which this can be said? Can it be said of Germany?

As a matter of fact, would the Teutonic countries allow even a single mark in gold to pass over their borders? Could Germany spare the gold?

“But this is not all. Great Britain, besides shipping gold with perfect freedom and availing herself of all the old devices for dealing with an adverse trade balance, has not failed to call to her aid new expedients such as were demanded by the extraordinary situation with which she has had to deal. Witness, for instance, the action this week in arranging for the mobilization of English-owned American securities by purchase or loan, with the view to gaining additional credits in the foreign markets.

“Her financiers seem equal to every requirement and every emergency. Dr. Helfferich is reported as having said: ‘We (Germany) stand like rocks in the soil of the home country, and on the columns of the British Empire are written in glowing letters the same words as were written on the wall of Belshazzar’s palace.’ But obviously, so long as British determination holds out and her people remain dauntless in courage and finances, the German dream of conquest and of the downfall of the British Empire will be in vain.”

The foregoing interviews and articles are reproduced in order to show the true state of affairs and the way in which German statements must be regarded.



## THE EXCHANGES AND WHAT THEY DEMONSTRATE.

The sensational decline in German and Austro-Hungarian international credit is regarded in all countries of the world as of the utmost significance concerning the outcome of the war. To the general public the exchanges are usually a closed book, but bankers, merchants, and others dealing in the different markets of the world know the enormous part that exchange plays in the economic life of nations.

In March, 1915, the German exchange showed a depreciation of 14 per cent., *i.e.*, 100 marks would purchase abroad goods to the value of only 86 marks. To-day the depreciation is more than 30 per cent., so that a German merchant is obliged to pay 30 per cent. more for goods imported than in normal times. What is the reason?

German financiers contend that it is because they cannot export goods, but it is obvious that the same reason that prevents exports also prevents imports. Moreover, we have heard from German Ministers that

Germany is quite self-supporting and needs nothing from abroad. Why, then, attempt to explain the fall in the value of the German mark by the rather weak argument of the impossibility of being able to export?

The principal reason for the terrible decline in Germany's credit is the want of confidence in her future economic and financial position. Everyone realises that the amount of Germany's war loans is stupendous and too great for her to bear. Germany has flooded the country with paper money, and the gold must be retained at home in order to prevent her people from becoming alarmed; she must keep a certain gold cover for her notes, and the fact that she refused to pay notes in gold at the beginning of the war, and still maintains this attitude, proves conclusively that Germany knew and knows her own weakness.

At the commencement of the war Germany was able to stem the falling rate of her exchange by selling foreign securities abroad. To-day that resource has apparently failed,—she has either no more to sell, or German holders prefer to retain something that will possess value after the war is over. We are given to understand that the

situation is so serious that proposals have been put forward in Germany to the effect that the Imperial Bank of Germany should undertake all foreign exchange operations, also that the same procedure should be adopted in Austria-Hungary, the control of the exchanges being concentrated in the hands of the State Bank there. From all that one hears it would appear that these measures have been taken in order to prevent purchases of raw materials abroad for delivery when peace is declared, by which means Germans and Austrians would be able, by present payment in marks, to secure value in goods to be held abroad, thereby remitting their capital to other countries and safeguarding it from further depreciation.

The great mistake of German financiers was to suppress the quotations of the foreign exchange market when war broke out, and it was only natural that, when the mark-value began to depreciate beyond 15 per cent., the public would become aware of it, and, as no rates whatever were published in the newspapers, great uneasiness was caused. There is no doubt that the great fall in the value of the German mark, besides showing the opinion of neutral countries with regard to

Germany, also reflects the views of a great many Germans; for Germans themselves have accelerated the depreciation of the mark by transferring their capital from Germany to neutral countries, either to be held abroad as bank balances or to be utilised for the purchase of goods, materials, &c., at the present time not required in Germany, but, as stated above, to be delivered when peace is declared. If it really be true that the Imperial Bank of Germany, through the organization of the different German banks, is to supervise all foreign exchange operations, we should not be surprised to find that all buyers and sellers of remittances to abroad are to be forced to sign declarations and furnish explanations showing the details of the transactions, such declarations to be enforced by heavy penalties, in which case the remarks made above with regard to Germans themselves sending their capital out of the country would be amply confirmed. If this is the attitude of far-sighted German merchants, we do not think that we have in any way over-stated the precarious condition of German finance.

Perhaps we may be permitted to make a few references to the London foreign exchange

market. In the midst of the crisis occasioned in August and September, 1914, London bankers re-started the bi-weekly meetings on the Royal Exchange for fixing all the rates for foreign currencies, and from that time onwards the rates have been regularly quoted. This action on the part of London bankers no doubt had a great effect on the exchange situation, because it helped to restore confidence in all parts of the world and enabled all foreign exchange transactions to be centralised in London. There is no embargo whatever in London on sending remittances to any allied or neutral country or on receiving moneys in foreign currencies. The market is entirely free from restraint, for the simple reason that the British nation has every confidence in the financial situation of Great Britain and in those who direct its policy.

German organization has not been successful in preventing her severe exchange depreciation, but—and to this point we specially draw attention—if the Reichsbank, in conjunction with the other German banks, should control the foreign exchanges in Germany, they will, of course, quote their own rates, and it is more than possible that they will quote rates giving the impression in Germany that the German



mark is appreciating in value. It is only to be expected that, as there will be no free market in Germany and no competitive quotations based on the usual flow of supply and demand, the exchange rates quoted by the German exchange combine will show that the exchange question in Germany is being dealt with in the same manner as the various German War Loans, that is to say, the combine rates will not reflect the true value of the German mark. A transfer between New York and Vienna took place on 7th December, 1915, at the rate of kr. 7·28 = 1 dollar, *i.e.*, a depreciation of the Austrian crown of about 47 per cent. (par of exchange in New York, kr. 4·93 = 1 dollar).

The annexed charts show the course of the exchange since the war started, and one is enabled by them to follow Germany's critical position very accurately.

We should not like to close this subject of the exchanges without stating that the sterling exchange has also suffered, though not to the extent that Dr. Helfferich and other German financiers would have the world believe. The New York exchange at one time, as is openly stated in the foregoing interview between the

Financial Secretary to the British Treasury and the London representative of the "New York Tribune," was against this country to the extent of some 7 to 8 per cent. This was due to the enormous purchases of Great Britain in the United States of America. At one time the New York Exchange in London was quoted about \$4.48 to £1 sterling, a fact easy of comprehension considering the enormous amount of dollar transactions between New York and London and in view of the further fact that on certain days the demand for dollars was exceptionally heavy. Since that time effective measures have been put into operation for rectifying the sterling exchange in New York. To-day's rate is about \$4.78, *i.e.*, an appreciation of the sterling exchange from its lower point (\$4.48 per £1 sterling) of over  $6\frac{1}{2}$  per cent., whereas in the same period the German exchange in New York, instead of going up in value like British sterling, has depreciated from  $80\frac{3}{4}$  cents for 4 marks to  $74\frac{1}{4}$  cents for 4 marks, *i.e.*, a depreciation on the former figure of some  $8\frac{1}{2}$  per cent.

Great Britain has plenty of American securities with which to pay her debts in the United States of America, and New York knows that a

strong financial London is as essential to her world-success as a financially strong New York is necessary to Great Britain.

## THE GOLD AND NOTE POSITIONS OF THE BANK OF ENGLAND AND THE IMPERIAL BANK OF GERMANY.

The value of a bank note consists in its convertibility into gold, and it is this immediate convertibility that has made the pound sterling an international currency. Bills drawn on London banks and bankers are convertible at maturity into gold by the simple method of taking Bank of England notes to the Bank of England and requesting gold. This vital banking facility has never been refused during the whole of the war. The Bank of England pays all its notes in gold, and any one possessing a note has the right and the power to withdraw gold from the Bank of England. Large quantities of gold sovereigns have been exported from Great Britain since the war began to Spain, the United States of America, Holland, Portugal, Argentina, &c., maintaining London's position as a FREE MARKET for gold. Germany, on the other hand, refused, when war broke out, to pay gold against her notes; she STILL REFUSES and

will not allow any gold to be exported abroad, except to pay for special imports, urgently needed, when neutral countries decline to extend credit facilities and will only export the desired goods against gold. What is the value of a German bank bill? The value that one can obtain by selling the marks at the rate of exchange of the day, so that 100,000 marks drawn on a German banker will return the neutral holder 30 per cent. below the gold value, whereas anyone possessing a London bill can draw the value in gold should he wish to avoid any exchange differences. These points should be carefully considered by all neutral countries who may have or be inclined to resume business relations with Germany after the war. Germany is NOT a free market for gold. She refuses during a war to pay the mark balances held in Germany by neutrals in gold, thereby occasioning them great loss. Great Britain, however, has during the war of wars maintained her position in spite of all difficulties, paid gold to anyone who presented notes at the Bank of England, and allowed gold to be freely exported.

The following chart shows the amount of gold held by the Bank of England as cover for the Bank of England notes in circulation, together with the percentage of gold cover. On 24th

June, 1914 (before the war) the percentage of gold cover to notes amounted to 139·1 per cent., and on 30th September, 1915, 189·1 per cent., representing a 50 per cent. greater gold cover after more than one year of war.

### BANK OF ENGLAND.

Date of Return.	Gold (£ sterling).	Notes in Circulation.	Percentage of Gold Cover to Notes.
1914.	£	£	
June 24 ...	39,928,263	28,703,125	139·1
July 29 ...	38,131,544	29,706,350	128·4
August 26 ...	43,473,412	35,571,435	122·2
September 30...	52,916,604	34,964,625	151·3
October 28 ...	61,872,740	35,112,670	176·2
November 25...	72,222,932	35,314,865	204·5
December 31 ...	69,493,610	36,139,180	192·3
1915.			
January 27 ...	69,166,117	34,704,540	199·3
February 24 ...	63,871,540	34,222,880	186·6
March 25 ...	57,248,528	34,165,070	167·6
April 29 ...	55,314,389	34,685,560	159·5
May 26 ...	61,737,814	32,947,290	187·4
June 30 ...	52,091,894	34,636,280	150·4
July 29 ...	60,906,500	33,531,335	181·6
August 26 ...	67,300,766	31,803,255	211·6
September 30...	62,008,891	32,799,985	189·1

The above chart shows that on the 30th September, 1915, for every £100 Bank of England note the Bank of England held gold cover to the extent of over £189.



The German position is not quite so satisfactory. On 30th June, 1914, the ratio of gold cover to notes in circulation was 54·3 per cent., and on 30th September, 1915, only 39·3 per cent. in spite of Germany's refusal to export gold; thus, after 14 months of war the gold cover is 15 per cent. lower than it was before the war.

IMPERIAL BANK OF GERMANY, 1914/5.  
(In Millions of Marks.)

Date of Return.	Gold held.	Notes in Circulation.	Percentage Gold Cover to Notes in Circulation.	Amount Notes in Circulation NOT covered by Gold.
1914.	Millions of Marks.	Millions of Marks.		Millions of Marks.
June 30 ...	1306,2	2406,6	54·3	1100,4
July 31 ...	1253,2	2909,4	43·1	1656,2
August 31 ...	1556,5	4234,9	36·7	2678,4
September 30	1716,1	4490,9	38·2	2774,8
October 31 ...	1858,3	4170,8	44·5	2312,5
November 30...	1991,3	4205,4	47·3	2214,1
December 31...	2092,8	5045,9	41·5	2953,1
1915.				
January 30 ...	2163,8	4658,6	46·4	2494,8
February 27 ...	2270,6	4862,7	46·7	2592,1
March 31 ...	2337,5	5624,0	41·6	3287,5
April 30 ...	2368,5	5310,3	44·6	2941,8
May 31 ...	2379,5	5317,3	44·7	2937,8
June 30 ...	2387,6	5840,3	40·9	3452,7
July 31 ...	2400,7	5538,2	43·3	3137,5
August 31 ...	2401,2	5564,3	43·2	3163,1
September 30	2419,4	6157,6	39·3	3738,2

So that on the 30th September, 1915, nearly six thousand one hundred and fifty-eight millions marks in Bank notes were in circulation, of which over three thousand seven hundred and thirty-eight millions were totally uncovered by gold; therefore, 1,000 marks paper is only covered by 393 marks gold.

## GOLD.

In the period between the 30th June, 1914, and 30th September, 1915, the Imperial Bank of Germany endeavoured and, no doubt, succeeded in withdrawing practically all the gold in circulation. Moreover, the said institution had reduced its holding of silver from 324 million marks to 35 million marks, so that 289 million silver marks have been put into circulation and gold withdrawn. All the gold reserve of Germany is, therefore, practically centred at the Imperial Bank of Germany. But in Great Britain there is a great deal of gold in circulation and in the banks; the report of one leading bank, issued in the first days of January, 1916, showed that it had over seven millions sterling in gold in its own vaults.

A comparison of the gold holdings of the State Banks of the belligerents is interesting, but unfortunately as Austria-Hungary has issued no statements of her gold and note position since the war began, in accordance with the arrangement made between the two Governments at the commencement of the war, it is not possible to make a thorough analysis; the position of the Dual Monarchy looks, however, very unsatisfactory, especially as Austrian gold has found its way to Holland, and, we believe, other countries. We append a translation of a short paragraph which appeared in the "Kölnische Zeitung" of 20th January, 1916 (noon edition) :

" Budapest. The Minister of Finance, Teleszky, answering certain interpellations regarding the value of Austro-Hungarian bank notes and the reason for the non-publication of the usual returns of the issuing banks, stated that at the present time it was not obligatory on the Austro-Hungarian Bank to ensure the parity of the banknote, and for identically the same reasons that applied to all other issuing banks, which had found it necessary to suspend the conversion of notes into gold. The publication of the usual ten-day return of the Austro-Hungarian Bank had been suspended on the authorisation of the two Governments. The depreciation of Austro-Hungarian currency was

due to the economic conditions brought about by the long duration of the war which cut off Austria-Hungary from the European and oversea countries."

LATEST RETURNS OF THE GOLD HOLDINGS OF THE  
LEADING (EUROPEAN) STATE BANKS OF  
BELLIGERENT COUNTRIES.

				£
Belgium	...	...	...	Not issued.
France	...	...	...	200,611,000
Great Britain	...	...	...	51,338,430
Italy ...	...	...	...	53,661,000
Russia	...	...	...	160,726,000
Total				466,336,430

				£
Austria-Hungary	...	...	...	Not issued.
Germany	...	...	...	122,066,000
Total				122,066,000

## VISIBLE GOLD HOLDING OF THE BRITISH EMPIRE.

	£
Bank of England ... ..	51,338,430
Treasury Note Reserve ... ..	28,500,000
Commonwealth Bank ... ..	11,034,705
New Zealand Banks (about)...	6,000,000
Canadian Central Note Re- serve ... ..	2,350,000
National Bank of Egypt ... ..	7,121,799
Indian Gold Standard Re- serve ... ..	5,158,142
Indian Note Reserves ... ..	11,780,000
Straits Settlements Note Guarantee Fund ... ..	797,685
Held by English, Scotch and Irish Banks and in public circulation (estimated at least at) ... ..	50,000,000
Total ... ..	<hr/> 174,080,761 <hr/>

The British Empire produces approximately 66 per cent. of the world's annual gold supplies, which is a considerable factor for all neutrals to note. The Bank of England received and purchased gold, during the period from the outbreak of war to 31st December, 1915, amounting to £141,553,000, and sold, exported, or set aside gold totalling in the aggregate £117,310,000.



These figures prove how unfounded the German attacks are when they allege that Great Britain is no longer a free market for gold.

## TAXATION.

Since the outbreak of hostilities Dr. Helfferich has repeatedly told the Reichstag that it was not necessary to increase taxation in Germany, but that England has been forced to raise further taxes. These statements, we gladly admit, are perfectly true, but it is rather surprising that Dr. Helfferich, an able and eminent financier, should have raised the point, since it permits of the obvious reply that WHILE GERMANY IS INCREASING HER DEBT ENORMOUSLY without taking any measures regarding redemption or financing the war even partially out of current revenue, GREAT BRITAIN, on the other hand, IS STRONG ENOUGH TO INCREASE TAXATION, and the increase is willingly borne by a patriotic and far-sighted people in order to help to finance the war out of revenue. On August 20th, 1915, Dr. Helfferich made the following remarks in the Reichstag :

“I explained in March the reasons which determined the German Government against the imposition of war taxes during the period of the war. These reasons will stand. We do not

desire to increase by taxation the heavy burden which war casts upon our people, so long as it is not absolutely necessary. Heavy taxes on consumption or increased transit dues would with prices at their present level be neither reasonable nor desirable. Direct taxation, apart from any question of principle, is already being levied under pressure of war necessity at an increased rate by the Communes and to some extent by the individual States. These reasons are the more forcible inasmuch as the yield of taxation at the best could only meet a very small portion of the vast total of war expenditure.

“As things are, the only method seems to be to leave the settlement of the war bill to the conclusion of peace and the time after peace has been concluded. And on this I would say: If God grant us victory, and with it the possibility of moulding the peace to suit our needs, we neither can nor will forget the question of costs. We owe that to the future of our people. The whole course of the future development of their lives must, if at all possible, be freed from the appalling burden caused by the war.”

“IF GOD GRANT US VICTORY AND WITH IT  
THE POSSIBILITY OF MOULDING THE PEACE  
TO SUIT OUR NEEDS, WE NEITHER CAN NOR  
WILL FORGET THE QUESTION OF COSTS.  
WE OWE THAT TO THE FUTURE OF OUR  
PEOPLE.”

Apparently the future of the German people depends upon the question of costs, and the war

loans have been subscribed on the assumption that large indemnities would be paid by the enemy.

Dr. Helfferich has always spoken very glibly of indemnities to defray the cost of the war; in his December speech, however, he apparently does not mention the word "indemnities," and no doubt he is beginning to change his views. Germany, if true to itself, must realise that, although they have accomplished a great deal on the field of battle, due to their well organised preparations, they are bound to lose, and that the question of costs will be in the hands of the Allies and not of Germany. What will the future of the German people be then? It is too terrible to contemplate.

Great Britain, in the midst of the struggle, has not hesitated to impose immense new taxation upon her people to help to pay for the war out of revenue. This is a measure that one expected from a nation financially sound, realising its responsibilities and its position in the financial world. Before the war the Budget brought in revenue to the extent of £200,000,000 per annum. In November, 1914, an annual increase of £68,500,000 was made, and the last increase of October, 1915, will add more

than £100,000,000 to the above amounts, so that upwards of £370,000,000 per annum are now being raised by taxation, of which £170,000,000 are extra taxation for the expenses of the war.

It appears from German newspaper comments that in Germany such straightforward finance is considered a sign of weakness, and it is evidently thought sounder policy to speculate on the chances of a victorious issue of the war, which would enable the German Government to extract a huge indemnity, and in the meanwhile to finance the war entirely by borrowing and the printing press. What Germany's position will be when the question of taxation, after the war, has to be faced, will be, in the words of the German newspaper "Vorwärts," "one of the sorrows of coming days."

In spite of the speeches of Dr. Helfferich, Germany may be forced to impose new taxes on her people, but what the result will be should make interesting reading. Up to the present she has apparently been afraid to increase taxation, because the revenue of the country has dropped very considerably and because her great international trade has been practically stopped. The German steamship lines no longer earn freights; the importer and the exporter, and the

industries they once served, have practically no business, the result being that Germany's revenue from such sources is almost non-existent. Not only will increased taxation during the war in such cases produce nothing, but the pre-war revenue will be greatly reduced; this, of course, exclusive of war profits.

We concluded our pamphlet published in March, 1915, with the words :

“ Only a war of short duration would have permitted Germany to disentangle herself from the clutch of the financial octopus she has created.”

and the truth of those words is more apparent to-day than in March, 1915.

## GREAT BRITAIN : IMPORTS AND EXPORTS.

Under the talented and skilful management of the President of the Board of Trade, the Right Honourable Walter Runciman, M.P., the productivity of Great Britain has shown highly successful results. Trade has been greatly handicapped by the enormous number of men withdrawn from every branch of trade and commerce to strengthen the British armies fighting



for justice and right; the export of numerous articles has been forbidden, imports have been reduced in order to prevent extravagance and unnecessary expenditure; yet, in spite of all, the Board of Trade returns show marvellous results. The following list demonstrates in a forcible manner the way in which the income and productivity of the country have been carefully nurtured. This far-sightedness on the part of the authorities has permitted the immense increase of taxation alluded to elsewhere.

MONTHLY IMPORTS, EXPORTS AND RE-EXPORTS  
SHEWN IN VALUE POUNDS STERLING.

	Imports.	Exports.	Re-Exports.
	Value in £ sterling.		Total for four months.
1914.			
September	45,424,864	26,674,101	
October ...	51,559,289	28,601,815	
November	55,987,058	24,601,619	
December...	67,554,960	26,278,928	
	£220,526,171	£106,156,463	£23,967,421

Total of Exports and Re-Exports  
for four months,  
£130,123,884

	Imports.	Exports.	Re-Exports.
	Value in £ sterling.		Total for year.
1915.			
January ...	67,401,006	28,247,592	
February ...	65,268,814	26,176,937	
March ...	75,590,918	30,176,066	
April ...	73,678,288	32,169,733	
May ...	71,644,966	33,618,992	
June ...	76,117,797	33,233,568	
July ...	75,548,147	34,721,511	
August ...	69,496,695	32,438,855	
September	70,292,919	32,308,432	
October ...	67,792,557	31,968,965	
November	71,647,160	35,639,166	
December...	70,938,390	33,947,519	
	£855,417,657	£384,647,336	£98,797,000

Total of Exports and Re-exports  
for 1915,  
£483,444,336

## ANALYSIS FOR THE YEAR 1915.

From the above it will be seen that the imports which in June, 1915, reached the high total of £76,117,797 have, owing to the measures taken by the British Government, been reduced so that in December the amount of the imports was under £71 millions—this amount will, no

doubt, be still further reduced under Government supervision. The exports, on the other hand, have increased very considerably, the lowest being £26,176,937 sterling value in February of this year, and the highest £35,639,166 in November last—a difference of over 27 per cent. in favour of Great Britain.

### THE POSITION AFTER THE WAR.

It is impossible to forecast the events that will take place when peace is declared, but Germany's boast that she will emerge from the war without any foreign obligations may point to Germany's greatest danger. One hears to-day of large contracts being placed by Germany for raw materials, goods, &c., for delivery after the war, but what will be the position of her finances then? To-day we see a depreciation of 30 per cent. in her exchange, an enormous quantity of paper money, her productive powers greatly reduced owing to the number of men who have fallen on the field of battle, and a gold reserve that covers her note issue to the extent of about 39 per cent. Germany's boast that she is to-day independent of outside help, being able to provide all she needs internally, means that she is

consuming all the materials inside the country, and when the war is over she will be obliged to buy enormously abroad in order to replenish her supplies and restart her factories and industries.

But will the neutral take payment in German paper or German war loans? No; he will demand gold, and the problem that faces Germany to-day with regard to her exchange position will be far more acute then. To-day, to right her exchange, she must export gold, which would help in a small degree to restore a certain amount of confidence in the neutral mind; but exporting gold would immediately sound a note of alarm internally; the holder of the 100 mark note requires a certain gold cover, and if gold were freely exported it would cause the greatest alarm in Germany. The position of Austria-Hungary it is impossible to describe, criticise or write about. Her exchange shows a depreciation of over 45 per cent.; the National Bank publishes no return, and the amount of gold she holds against her note issue can be the subject only of guesswork. Dutch bankers know that Austrian gold has been received in Holland, so that the real state of affairs of Germany's ally will

be disclosed only when the war is finished, but neutrals should bear this point in mind when thinking of future dealings with either of the Central Powers.

Every impartial reader will recognise that the facts stated in this pamphlet speak for themselves. British determination, the raising of enormous armies, the great increase of taxation so willingly borne, the excellent manner in which the Government are reducing unnecessary expenditure throughout the whole country in order to promote as quick a recovery as possible from the burden that the war has created,—all these things were to be expected from the British Empire, and it is upon this solid foundation,—the outcome of centuries,—that the credit of the British Empire firmly rests. The outcome of the German dream of world-domination, with which object Germany started the war, can only be the financial and economic ruin of the Central Empires.





CHART SHEWING THE DISCOUNT PER CENT  
OF THE  
BRITISH POUND STERLING, AMERICAN DOLLAR, GERMAN MARK  
& AUSTRIAN CROWN.  
IN AMSTERDAM - HOLLAND  
1915 - 1916.

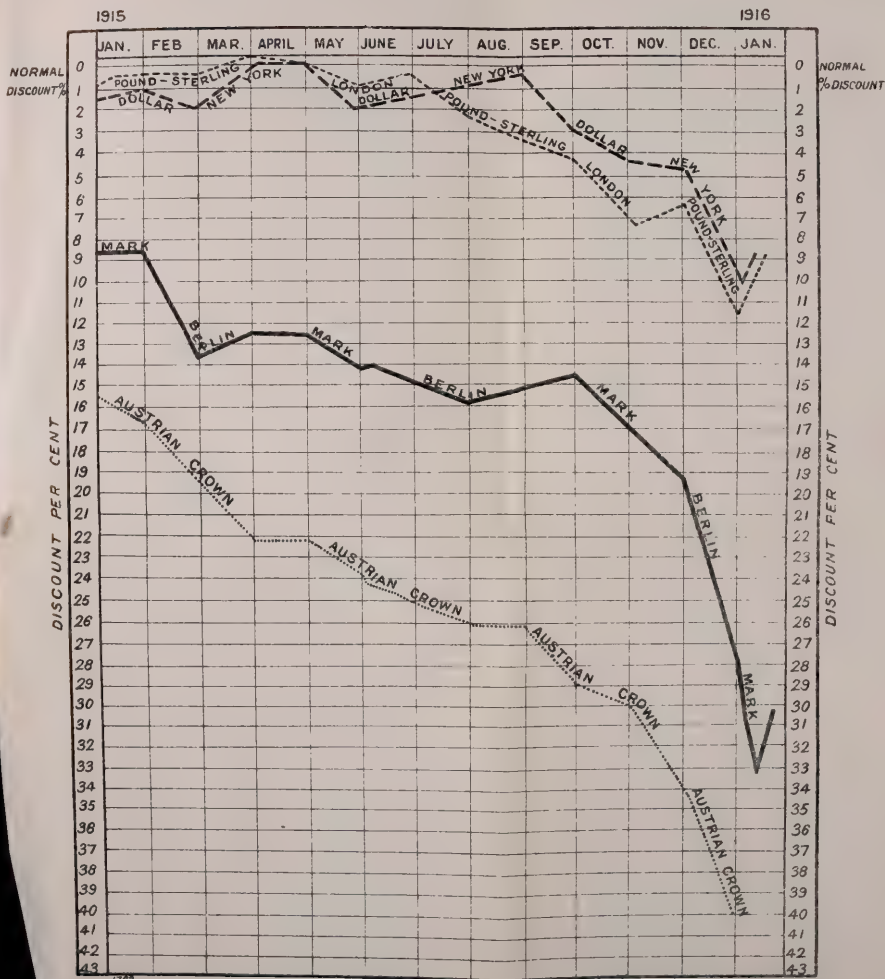
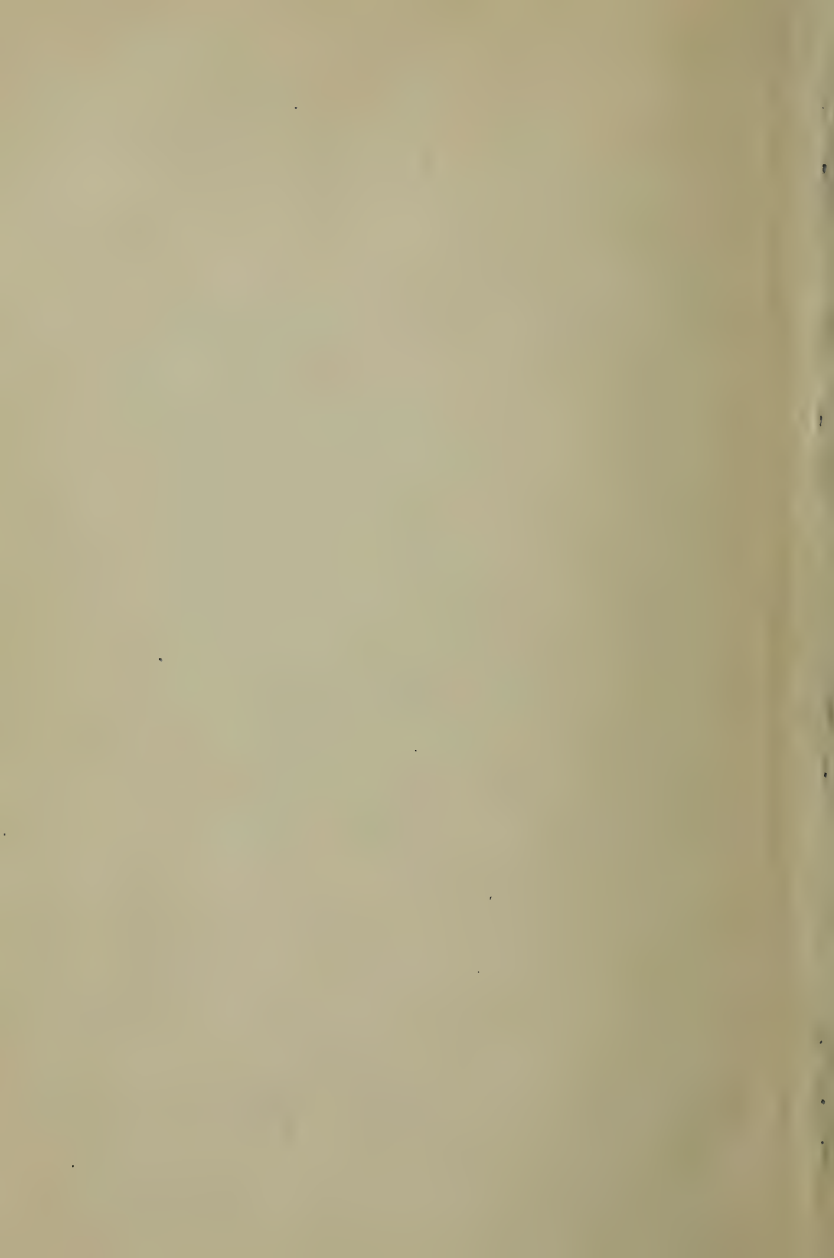


CHART SHEWING THE DISCOUNT PER CENT  
OF THE  
POUND STERLING & GERMAN MARK IN NEW YORK.  
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